

# **RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND FIRMS' PROFITABILITY: A STUDY OF PAKISTAN'S CEMENT SECTOR**

**By**

**HINA FARHEEN**

**25669**

A thesis presented to the Department of Management Sciences, Bahria University Karachi Campus, in partial fulfillment of the requirements of the MBA degree



**Fall, 2014**

**Bahria University Karachi Campus**



**MBA Thesis**  
**2<sup>nd</sup> Half-semester Progress Report & Thesis Approval Statement**

Name of Student	Hina Farheen
Registration No.	25669
Thesis Title	RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND FIRMS' PROFITABILITY: A STUDY OF PAKISTAN'S CEMENT SECTOR

**Supervisor-Student Meeting Record**

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	26/11/14	Research Lab	Data integration and the findings of the study discussed	-sd-
5	5/12/14	Research Lab	Discuss final thesis findings & results of the study	-sd-
7	13/1/15	Research Lab	Work on conclusion, recommendation & formatting	-sd-

**APPROVAL FOR EXAMINATION**

Candidate's Name: Hina Farheen Registration No. 25669

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I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at 0% that is within the permissible limit set by the HEC for the MBA thesis. I have also found the thesis in a format recognized by the Department of Management Sciences.

Supervisor's Signature:  Date: \_\_\_\_\_

Name: M Faisal

HoD's Signature:  Date: 1/4/15



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## Abstract

**Purpose:** This study is conducted to investigate the relationship between capital structure and profitability of cement sector companies listed at Karachi Stock Exchange (KSE).

**Methodology/Sample:** This study considered the cement sector companies that are listed at KSE. Initially all the 19 listed companies were selected but due to non availability of data the final sample is restricted to 15 companies. The period for this study is five years from the period 2009 to 2013. In order to measure capital structure three main ratios used which are short-term debt to total capital (STDTC), long-term debt to total capital (LTDTC) and total debt to total capital (TDTC) whereas, profitability is measured by using net income (NI) and return on equity (ROE). Moreover, firm size is used as a control variable. All the data has been collected from the annual reports of the companies. In this study Descriptive Statistics, Correlation Analysis and Multiple Panel Least Squares Regression models are used.

**Findings:** Results showed that all the measures of capital structure: STDTC, LTDTC and TDTC are negatively related with profitability measured by ROE and NI while control variable size of the company has no significant impact on profitability. Moreover, only ROE is significantly related with all capital structure proxies STDTC, LTDTC and TDTC whereas, NI is found to be significant with LTDTC and TDTC but insignificantly related to STDTC. Therefore, the results revealed that there is a negative relationship between capital structure and profitability of cement sector of Pakistan. Furthermore, results concluded that profitable companies in cement sector of Pakistan follow “Pecking Order Theory” according to which they use internal financing first.

**Practical Implications:** The outcomes of this study will help the cement companies’ financial managers to understand the importance of using right level of debt and equity in their capital structure and hence improve their company’s profitability by using optimal capital structure. Since cement companies are expanding their capacities and explore new opportunities therefore, the results of this study will help them whether they will go for debt or equity to finance new projects and investments. Moreover, investors also find the results of this study as a useful source in their investment decisions either to invest in company as a debt holder or as an equity holder.

**Keywords:** Capital Structure, Cement Sector, Firms’ Profitability, KSE, LTDTC, NI, Pakistan, ROE, STDTC, TDTC.

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